



NORTH CAROLINA GENERAL ASSEMBLY

Session 2019

Fiscal Analysis Memorandum

CONFIDENTIAL

Requestor: Representative Howard and Senator Newton
Analyst(s): Jonathan Tart, Emma Turner
RE: IRC Update/Medical Expense Deduction

SUMMARY TABLE

FISCAL IMPACT OF BILL DRAFT 2019 RBxfz-12 (\$ in millions)

	<u>FY 2019-20</u>	<u>FY 2020-21</u>	<u>FY 2021-22</u>	<u>FY 2022-23</u>	<u>FY 2023-24</u>
State Impact					
General Fund Revenue	(18.0)	(18.0)	-	-	-
Less Expenditures	-	-	-	-	-
General Fund Impact	(18.0)	(18.0)	-	-	-
NET STATE IMPACT	(\$18.0)	(\$18.0)	-	-	-

FISCAL IMPACT SUMMARY

The bill draft would update North Carolina's conformity to the Internal Revenue Code to January 1, 2020, thereby reducing the threshold amount for the medical expense deduction from 10% to 7.5% for the 2019 and 2020 tax years. This would reduce personal income tax revenue by an estimated \$18 million in both FY 2019-20 and FY 2020-21. The federal legislation also extended three provisions from which North Carolina has historically decoupled. The bill draft would continue to decouple from these provisions: income exclusion for cancellation of debt on a primary residence, and deductions for tuition expense and mortgage insurance premiums.

FISCAL ANALYSIS

The North Carolina Department of Revenue estimates that the total cost of the medical expense itemized deduction under current law (with the 10% threshold) will be \$60.3 million in FY 2019-20 and \$60.5 million in FY 2020-21.

Reducing the threshold to 7.5% is expected to increase the cost of the deduction by approximately \$18 million each year.



The fiscal impact of reducing the medical expense deduction threshold was estimated using the Fiscal Research Microsimulation Tax Model. The Model uses prior year Federal and North Carolina tax return data that has been “aged” to approximate 2019 and 2020 tax year data.

TECHNICAL CONSIDERATIONS

N/A.

DATA SOURCES

North Carolina Department of Revenue, IRS Statistics of Income, Moody’s Analytics Forecasts

FISCAL ANALYSIS MEMORANDUM – PURPOSE AND LIMITATIONS

This document is a fiscal analysis of a bill, draft bill, amendment, committee substitute, or conference committee report that is confidential under Chapter 120 of the General Statutes. The estimates in this analysis are based on the data, assumptions, and methodology described in the Fiscal Analysis section of this document. This document only addresses sections of the bill that have projected direct fiscal impacts on State or local governments and does not address sections that have no projected fiscal impacts. This document is not an official fiscal note. If a formal fiscal note is requested, please email your request to the Fiscal Research Division at FiscalNoteRequests@ncleg.net or call (919) 733-4910.

